

**CITY OF ROSE CITY
Ogemaw County, Michigan**

**Financial Report
with Supplemental Information
June 30, 2008**

City of Rose City

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INDEPENDENT AUDITOR'S REPORT

City Council
City of Rose City
Rose City, Michigan 48654

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Rose City as of and for the year ended June 30, 2008, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Rose City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Rose City as of June 30, 2008, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and budgetary comparison information on pages 3 through 8 and pages 28 through 30 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Rose City's basic financial statements. The accompanying pages of other supplemental information, as identified in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Robertson & Carpenter CPAs, P.C.
December 18, 2008

Management's Discussion and Analysis

As management of City of Rose City (the "City"), we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2008.

Financial Highlights

- The assets of City of Rose City exceeded its liabilities at the close of the most recent fiscal year by \$3,246,930 (*net assets*). Of this amount, \$232,044 (*governmental activities unrestricted net assets*) may be used to finance day-to-day operations of the City. Funds required to be used for a specific purpose (*restricted net assets*) total \$124,419.
- As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$356,589, an increase of \$22,665 in comparison with the prior year. Approximately 65% of the total amount, \$232,170, is available for spending at the City's discretion (*unreserved fund balance*).
- At the end of the current fiscal year, unreserved fund balance for the general fund was \$232,170 or 61% percent of total general fund expenditures.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements. The *government-wide financial statements* are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of the City's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The *statement of activities* presents information showing how the City's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., earned but unused sick or vacation leave).

Both of the government-wide financial statements present functions of the City that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the City include general government, public safety, public works, and recreation and culture. The business-type activities of the City include a sewer system and a water system.

The government-wide financial statements can be found on pages 9-10 of this report.

Fund financial statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental funds. *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating the City's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The City of Rose City maintains six individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund, Major Street Fund, and Local Street Fund. Data from the other three non-major governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of *combining statements* elsewhere in this report.

The City of Rose City adopts an annual appropriated budget for its general and special revenue funds. Budgetary comparison statements or schedules have been provided for the General Fund, Major Street Fund and Local Street Fund herein to demonstrate compliance with those budgets.

The basic governmental fund financial statements can be found on pages 11-12 of this report.

Proprietary Funds. City of Rose City maintains two proprietary funds. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The City uses enterprise funds to account for its sewer and water activities.

The basic proprietary fund financial statements can be found on pages 14-16 of this report.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the City. Fiduciary funds are *not* reflected in the government-wide financial statements because the resources of those funds are *not* available to support the City's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

The basic fiduciary fund financial statements can be found on page 17 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 18-27 of this report.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information* concerning the City's budgetary comparison schedules for major governmental funds. Required supplementary information can be found on pages 28 to page 30 of this report.

The combining statements referred to earlier in connection with non-major governmental funds are presented immediately following the notes to the financial statements. Combining fund statements can be found on pages 31-32 of this report.

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City, assets exceeded its liabilities by \$3,246,930 at the close of the most recent fiscal year.

The most significant portion of the City's net assets (\$2,582,339, or 80%) reflects its investment in capital assets (e.g., infrastructure, land, buildings, vehicles, and equipment). The City uses these capital assets to provide services to the community; consequently, these assets are *not* available for future spending.

An additional portion of the City's net assets (\$124,419, or 4%) represent resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets (\$540,172, or 17%) may be used to meet the City's ongoing obligations to citizens and creditors. Unrestricted net assets in governmental activities total \$232,044. Unrestricted net assets in business-type activities total \$308,128.

At the end of the current year, the City is able to report positive balances in all three categories of net assets, both for the government as a whole, as well as for its separate governmental and business-type activities.

City's Net Assets

	Governmental Activities		Business-type Activities		Total	
	2008	2007	2008	2007	2008	2007
Current and Other Assets	\$ 379,046	\$ 389,733	\$ 369,194	\$ 334,768	\$ 748,240	\$ 724,501
Capital Assets, Net	808,794	750,991	1,773,545	1,630,290	2,582,339	2,381,281
Total Assets	<u>1,187,840</u>	<u>1,140,724</u>	<u>2,142,739</u>	<u>1,965,058</u>	<u>3,330,579</u>	<u>3,105,782</u>
Current Liabilities	22,583	56,128	61,066	36,574	83,649	92,702
Total Liabilities	<u>22,583</u>	<u>56,128</u>	<u>61,066</u>	<u>36,574</u>	<u>83,649</u>	<u>92,702</u>
Net Assets:						
Invested in Capital						
Assets	808,794	750,991	1,773,545	1,630,290	2,582,339	2,381,281
Restricted	124,419	125,590	-	-	124,419	125,590
Unrestricted	<u>232,044</u>	<u>208,015</u>	<u>308,128</u>	<u>298,194</u>	<u>540,172</u>	<u>506,209</u>
Total Net Assets	<u>\$1,165,257</u>	<u>\$1,084,596</u>	<u>\$2,081,673</u>	<u>\$1,928,484</u>	<u>\$3,246,930</u>	<u>\$3,013,080</u>

The City's net assets increased by \$233,850 during the current fiscal year discussed below.

City's Changes in Net Assets

	Governmental Activities		Business-type Activities		Total	
	2008	2007	2008	2007	2008	2007
Revenue:						
Program Revenue:						
Charges for						
Services	\$115,315	\$113,835	\$123,205	\$122,387	\$ 238,520	\$ 236,222
Operating Grants	89,643	97,328	-	-	89,643	97,328
Capital Grants		37,803	148,984	56,350	163,435	94,153
	14,451					
General Revenue:						
Property Taxes	277,700	264,503	-	-	277,700	264,503
State-Shared						
Revenues	88,630	88,796	-	-	88,630	88,796
Interest Earnings	11,546	14,067	9,167	11,621	20,713	25,688
Other	11,030	9,417	-	-	11,030	9,417
Total Revenue	608,315	625,749	281,356	190,358	889,671	816,107
Expenses:						
General						
Government	136,734	133,367	-	-	136,734	133,367
Public Safety	90,015	81,289	-	-	90,015	81,289
Public Works	268,259	267,849	-	-	268,259	267,849
Recreation and						
Culture	21,889	16,767	-	-	21,889	16,767
Community						
Development	10,757	11,409	-	-	10,757	11,409
Other	-	10,416	-	-	-	10,416
Sewer and Water	-	-	128,167	193,255	128,167	193,255
Total Expenses	527,654	521,097	128,167	193,255	655,821	714,352
Increase (Decrease)						
in Net Assets	80,661	104,652	153,189	(2,897)	233,850	101,755
Net Assets,						
Beginning of Year	<u>1,084,596</u>	<u>979,944</u>	<u>1,928,484</u>	<u>1,931,381</u>	<u>3,013,080</u>	<u>2,911,325</u>
Net Assets,						
End of Year	<u>\$1,165,257</u>	<u>\$1,084,596</u>	<u>\$2,081,673</u>	<u>\$1,928,484</u>	<u>\$3,246,930</u>	<u>\$3,013,080</u>

Governmental activities. Governmental activities increased the City's net assets by \$80,661, accounting for 34% of the total growth in net assets of the City. Revenues decreased by approximately \$17,000 compared to the previous fiscal year. Property tax revenue increased by approximately \$13,000. Capital grants decreased by approximately \$23,000 since capital grants were received during 06/107 for the purchase of playground equipment. Expenses increased by \$6,557 compared to the previous fiscal year. The General Fund transferred \$27,500 to the Water Fund during the fiscal year.

Business-type activities. Business-type activities decreased the City's net assets by \$153,189. The City is in the process of installing an arsenic treatment system in the Water Fund.

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$356,589, an increase of \$22,665 in comparison with the prior year. Approximately 65% of this total amount (\$232,170) constitutes *unreserved fund balance*, which is available for spending at the City's discretion. The remainder of fund balance is *reserved* to indicate that it is not available for new spending because the underlying assets are reserved or included in special revenue funds and not available for current general fund expenditure. The reserved portion of the general fund is \$465 available for police salvage costs. The fund balance amounts in special revenue funds consists of \$25,308 in the Major Street Fund, \$35,740 in the Local Street Fund, \$1,024 in the Parks & Recreation Fund, \$56,259 in the DDA fund and \$5,623 in the recreation fund.

The general fund is the principal operating fund of the City. At the end of the current fiscal year, unreserved fund balance and total fund balance of the general fund were \$232,170 and \$232,635, respectively. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance and total fund balance represent approximately 65% and 66% of total general fund expenditures.

The fund balance of the General Fund increased by \$19,168 during the current fiscal year.

The fund balances of the Major Street and Local Street Funds decreased by \$1,119 and \$ 17,410, respectively, during the current fiscal year.

Proprietary funds. The City proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net assets of the Sewer and Water Fund at the end of the year amounted to \$308,128. The total increase in net assets was \$153,189. Other factors concerning the finances of the fund have already been addressed in the discussion of the City's business-type activities.

General Fund Budgetary Highlights

The City's budgets are prepared in accordance with Michigan Law. The most significant budgeted fund is the General Fund. The general fund budget was amended during the year, revising functional categories as needed. As additional information became known during the fiscal year, budget amendments were made to recognize the additional revenue and/or planned expenditures related to various City programs.

Capital Asset and Debt Administration

Capital assets. The City's investment in capital assets for its governmental activities and business-type activities as of June 30, 2008, amounted to \$808,794 and \$1,773,545, respectively (net of accumulated depreciation). This investment in capital assets includes infrastructure, land, buildings, vehicles and equipment. Governmental activity additions totaled \$111,142, including road improvements of \$93,628. Business-type activity additions for the year totaled \$196,046, consisting of the arsenic treatment system (\$186,801) and water lines (\$9,245) in the Water Fund.

City's Capital Assets (net of depreciation)

	Governmental Activities		Business-type Activities		Total	
	2008	2007	2008	2007	2008	2007
Land	\$ 59,543	\$ 59,543	\$ -	\$ -	\$ 59,543	\$ 59,543
Infrastructure	432,530	360,574	-	-	432,530	360,574
Land improvements	55,640	60,387	-	-	55,640	60,387
Buildings and improvements	93,282	95,108	-	-	93,282	95,108
Furniture and improvements	167,799	175,379	-	-	167,799	175,379
Sewer and water systems	-	-	1,773,545	1,630,290	1,773,545	1,630,290
Total Net Assets	\$ 808,794	\$ 750,991	\$1,773,545	\$1,630,290	\$2,582,339	\$2,381,281

Additional information on the City's capital assets can be found in note 5 on page 24 and 25 of this report.

Factors Bearing on the City's Future

The following factors were considered in preparing the City's budget for the 2008-2009 fiscal year:

- The State of Michigan has made significant cuts in their operating budgets due to a downturn in the economy. For 2007-2008, the City received \$83,152 in state shared revenue from sales tax distributions, representing 19% of the revenues in the General Fund. The amounts of state shared revenues for future periods are uncertain and will affect the City's budgets. Our budgets were prepared with these factors in mind and will need to be revised as needed.

Requests for Information

This financial report is designed to provide a general overview of the City's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to:

City of Rose City
City Hall
410 N. Williams
Rose City, Michigan 48654

City of Rose City
Statement of Net Assets
June 30, 2008

	Governmental Activities	Business-type Activities	Total
Assets			
Cash (Note 3)	\$ 356,086	\$ 316,880	\$ 672,966
Receivables	1,177	52,314	53,491
Due from governmental units (Note 4)	21,783	-	21,783
Capital assets-net	808,794	1,773,545	2,582,339
	<u>1,187,840</u>	<u>2,142,739</u>	<u>3,330,579</u>
Liabilities			
Accounts payable	16,487	56,494	72,981
Accrued and other liabilities	2,308	-	2,308
Due to other governments	928	-	928
Deferred revenue (Note 4)	2,860	4,572	7,432
	<u>22,583</u>	<u>61,066</u>	<u>83,649</u>
Net Assets			
Invested in capital assets	808,794	1,773,545	2,582,339
Restricted:			
Restricted for police inspections	465	-	465
Major Street Fund	25,308	-	25,308
Local Street Fund	35,740	-	35,740
Parks & Recreation Fund	1,024	-	1,024
DDA Fund	56,259	-	56,259
All Ages Recreation Fund	5,623	-	5,623
Unrestricted	232,044	308,128	540,172
	<u>\$ 1,165,257</u>	<u>\$ 2,081,673</u>	<u>\$ 3,246,930</u>

See accompanying notes to financial statements.

City of Rose City
Statement of Activities
Year Ended June 30, 2008

Functions/Programs	Expenses	Program Revenues		Governmental Activities
		Charges for Services	Operating Grants	Net (Expense) Revenue and Capital Grants
Primary government:				
Governmental Activities:				
General government	\$ 136,734	\$ 33,556	\$ 17,424	\$ -
Public safety	90,015	1,800	-	-
Public works	268,259	73,574	72,219	-
Recreation and culture	21,889	6,385	-	14,451
Community development	10,757	-	-	-
Other	-	-	-	-
Total governmental activities	527,654	115,315	89,643	14,451
Business-type activities:				
Sewage Disposal System	115,471	106,655	-	-
Water System	12,696	16,550	-	148,984
Total business-type activities	128,167	123,205	-	148,984
Total primary government	655,821	238,520	89,643	163,435
General Revenues:				
Property taxes				
State-shared revenues				
Interest and investment earnings				
Other				
Total general revenues				
Change in Net Assets				
Net assets - beginning of year				
Net assets - end of year				

See accompanying notes to financial statements.

Net (Expense) Revenue and Changes in Net Assets		
Changes in Net Assets Governmental Activities	Business-type Activities	Total
\$ (85,754)	\$ -	\$ (85,754)
(88,215)	-	(88,215)
(122,466)	-	(122,466)
(1,053)	-	(1,053)
(10,757)	-	(10,757)
-	-	-
(308,245)	-	(308,245)
-	(8,816)	(8,816)
-	152,838	152,838
-	144,022	144,022
(308,245)	144,022	(164,223)
277,700	-	277,700
88,630	-	88,630
11,546	9,167	20,713
11,030	-	11,030
388,906	9,167	398,073
80,661	153,189	233,850
1,084,596	1,928,484	3,013,080
<u>\$ 1,165,257</u>	<u>\$ 2,081,673</u>	<u>\$ 3,246,930</u>

City of Rose City
Governmental Fund
Balance Sheet
June 30, 2008

	General Fund	Major Street Fund	Local Street Fund
Assets			
Cash and investments	\$ 235,389	\$ 18,720	\$ 32,630
Accounts receivable	3,850	-	-
Due from other funds (Note 6)	2,171	-	293
Due from other governmental units	10,179	8,787	2,817
Total assets	\$ <u>251,589</u>	\$ <u>27,507</u>	\$ <u>35,740</u>
Liabilities			
Accounts payable	\$ 10,016	\$ 219	\$ -
Accrued and other liabilities	2,182	-	-
Due to other funds (Note 6)	2,968	1,980	-
Due to other governments	928	-	-
Deferred revenue	2,860	-	-
Total liabilities	<u>18,954</u>	<u>2,199</u>	<u>-</u>
Fund balances			
Reserved for police inspections	465	-	-
Unreserved:			
General Fund	232,170	-	-
Unreserved-undesignated, reported in:			
Special Revenue Funds	-	25,308	35,740
Total fund balances	<u>232,635</u>	<u>25,308</u>	<u>35,740</u>
Total liabilities and fund balances	\$ <u>251,589</u>	\$ <u>27,507</u>	\$ <u>35,740</u>

Fund Balances - Total Governmental Funds

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources, and are not reported in the funds.

The cost of capital assets is
Accumulated depreciation is

Long term liabilities are not due and payable in the current period
and are not reported in the fund statements
Compensated absences

Net Assets of Governmental Activities

See accompanying notes to financial statements.

Other Nonmajor Governmental Funds	Total Governmental Funds
\$ 69,347	\$ 356,086
-	3,850
-	2,464
-	21,783
\$ 69,347	\$ 384,183
\$ 6,252	\$ 16,487
-	2,182
189	5,137
-	928
-	2,860
6,441	27,594
-	465
-	232,170
62,906	123,954
62,906	356,589
\$ 69,347	\$ 384,183
	356,589
	1,182,876
	(374,082)
	(126)
	\$ 1,165,257

City of Rose City
Governmental Funds
Statement of Revenues, Expenditures and Changes in Fund Balances
Year Ended June 30, 2008

	General Fund	Major Street Fund	Local Street Fund
Revenues			
Taxes and fees	\$ 210,753	\$ -	\$ 38,533
Licenses and permits	2,176	-	-
State grants	88,630	55,027	17,192
Charges for services	2,898	-	-
Fines and forfeits	2,000	-	-
Interest and rentals	41,093	338	1,279
Reimbursements	73,574	-	-
Other	6,854	-	-
Total revenues	<u>427,978</u>	<u>55,365</u>	<u>57,004</u>
Expenditures			
Current:			
General government	101,475	-	-
Public safety	84,453	-	-
Public works	168,309	80,464	53,632
Recreation and culture	4,806	-	-
Community development	10,757	-	-
Other	-	-	-
Capital outlay	8,392	-	-
Total expenditures	<u>378,192</u>	<u>80,464</u>	<u>53,632</u>
Excess of Revenues Over (Under)			
Expenditures	49,786	(25,099)	3,372
Other Financing Sources (Uses)			
Transfers in (out)	<u>(30,618)</u>	<u>23,900</u>	<u>(20,782)</u>
Total other financing uses	<u>(30,618)</u>	<u>23,900</u>	<u>(20,782)</u>
Change in Fund Balance	19,168	(1,199)	(17,410)
Fund balances -Beginning of year	<u>213,467</u>	<u>26,507</u>	<u>53,150</u>
Fund balances -End of year	<u>\$ 232,635</u>	<u>\$ 25,308</u>	<u>\$ 35,740</u>

See accompanying notes to financial statements.

Other Nonmajor Governmental Funds	Total Governmental Funds
\$ 28,414	\$ 277,700
-	2,176
-	160,849
-	2,898
-	2,000
1,294	44,004
-	73,574
38,260	45,114
<u>67,968</u>	<u>608,315</u>
26,632	128,107
-	84,453
-	302,405
10,108	14,914
-	10,757
-	-
9,122	17,514
<u>45,862</u>	<u>558,150</u>
22,106	50,165
-	(27,500)
<u>-</u>	<u>(27,500)</u>
22,106	22,665
40,800	333,924
\$ <u>62,906</u>	\$ <u>356,589</u>

City of Rose City
Reconciliation of the Statement of Revenues, Expenditures and Changes
in Fund Balances of Governmental Funds to the Statement of Activities
June 30, 2008

Net Change in Fund Balances - Total Governmental Funds	\$ 22,665
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Amounts reported for governmental activities are different because:

Government funds report capital outlays as expenditures;
in the statement of activities these costs are allocated
over their estimated useful lives as depreciation.

Depreciation expense	\$ (53,339)	
Capital outlay	17,514	
Public works - roads	<u>93,628</u>	
		57,803

Decrease in compensated absences are reported as
expenditures when financial resources are used
in governmental funds.

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Change in Net Assets of Governmental Activities	\$ <u>80,733</u>
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See accompanying notes to financial statements.

City of Rose City
Proprietary Funds
Statement of Net Assets
June 30, 2008

	Enterprise Funds		
	Major Fund	Major Fund	Total- Enterprise Funds
	Sewer System	Water System	
Assets			
Current assets:			
Cash and cash equivalents	\$ 283,539	\$ 33,341	\$ 316,880
Accounts receivable	44,159	5,480	49,639
Due from other funds (Note 6)	<u>2,675</u>	<u>792</u>	<u>3,467</u>
Total current assets	330,373	39,613	369,986
Noncurrent assets:			
Capital assets	<u>1,170,774</u>	<u>602,771</u>	<u>1,773,545</u>
Total noncurrent assets	<u>1,170,774</u>	<u>602,771</u>	<u>1,773,545</u>
Total assets	1,501,147	642,384	2,143,531
Liabilities			
Current liabilities:			
Accounts payable	12,296	44,198	56,494
Due to other funds (Note 6)	792	-	792
Deferred revenue	<u>-</u>	<u>4,572</u>	<u>4,572</u>
Total current liabilities	13,088	48,770	61,858
Total liabilities	13,088	48,770	61,858
Net Assets			
Invested in capital assets	1,170,774	602,771	1,773,545
Unrestricted	<u>317,285</u>	<u>(9,157)</u>	<u>308,128</u>
Total net assets	\$ <u><u>1,488,059</u></u>	\$ <u><u>593,614</u></u>	\$ <u><u>2,081,673</u></u>

See accompanying notes to financial statements.

City of Rose City
Proprietary Funds
Statement of Revenues, Expenses and Changes in Net Assets
Year Ended June 30, 2008

	Enterprise Funds		
	Major Fund	Major Fund	Total Enterprise Funds
	Sewer System	Water System	
Operating Revenue			
Customer billings	\$ 106,655	\$ 16,550	\$ 123,205
Total operating revenue	106,655	16,550	123,205
Operating Expenses			
Contracted services	2,795	-	2,795
Utilities	19,567	2,718	22,285
Repairs and maintenance	39,835	1,257	41,092
Other supplies and expenses	7,662	1,542	9,204
Depreciation	45,612	7,179	52,791
Total operating expenses	115,471	12,696	128,167
Operating Income (Loss)	(8,816)	3,854	(4,962)
Nonoperating Revenue (Expenses)			
Interest income	8,566	601	9,167
Federal grant	-	118,791	118,791
Transfer from General Fund	-	27,500	27,500
Tap fees	-	2,693	2,693
Change in Net Assets	(250)	153,439	153,189
Net assets - Beginning of year	1,488,309	440,175	1,928,484
Net Assets - End of year	\$ 1,488,059	\$ 593,614	\$ 2,081,673

See accompanying notes to financial statements.

City of Rose City
Proprietary Funds
Statement of Cash Flows
Year Ended June 30, 2008

	Enterprise Funds		
	Major Fund Sewer	Major Fund Water	Total Enterprise Funds
Cash Flows from Operating Activities			
Receipts from customers	\$ 99,344	\$ 20,151	\$ 119,495
Payments to suppliers	(87,856)	32,796	(55,060)
Net cash provided by operating activities	11,488	52,947	64,435
Cash Flows from Noncapital Financing Activities			
Transfers from other funds	-	27,500	27,500
Transfers to other funds	-	-	-
Net cash provided by noncapital financing activities	-	27,500	27,500
Cash Flows from Capital and Related Financing Activities			
Purchase of capital assets	-	(196,046)	(196,046)
Capital contributions	-	121,484	121,484
Net cash used in capital and related financing activities	-	(74,562)	(74,562)
Cash Flows from Investing Activities -			
Interest received on investments	8,566	601	9,167
Net Increase in Cash and Cash Equivalents	20,054	6,486	26,540
Cash and Cash Equivalents - Beginning of year	263,485	26,855	290,340
Cash and Cash Equivalents - End of year	<u>\$ 283,539</u>	<u>\$ 33,341</u>	<u>\$ 316,880</u>
Balance Sheet Classification of Cash and Cash Equivalents			
Cash and cash equivalents	<u>\$ 283,539</u>	<u>\$ 33,341</u>	<u>\$ 316,880</u>
Total cash and cash equivalents	283,539	33,341	316,880
Reconciliation of Operating Income to Net Cash from Operating Activities			
Operating income (loss)	(8,816)	3,854	(4,962)
Adjustments to reconcile operating income (loss) to net cash from operating activities:			
Depreciation and amortization	45,612	7,179	52,791
Changes in assets and liabilities:			
Receivables	(4,636)	(575)	(5,211)
Due from other funds	(2,675)	(396)	(3,071)
Accounts payable	(16,418)	41,721	25,303
Deferred revenue	-	4,572	4,572
Due to other funds	(1,579)	(3,408)	(4,987)
Net cash provided by (used in) operating activities	<u>\$ 11,488</u>	<u>\$ 52,947</u>	<u>\$ 64,435</u>

See accompanying notes to financial statements.

City of Rose City
Fiduciary Funds
Statement of Net Assets
June 30, 2008

	<u>Agency Funds</u>
Assets	
Cash	\$ <u>2</u>
Total assets	\$ <u><u>2</u></u>
Liabilities	
Due to other funds	<u>2</u>
Total liabilities	\$ <u><u>2</u></u>

See accompanying notes to financial statements.

Note 1 - Summary of Significant Accounting Policies

The accounting policies of the City of Rose City ("the City") conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units.

The fund financial statements focus on major funds rather than fund types.

The following is a summary of the significant accounting policies used by the City of Rose City, Michigan:

Reporting Entity

The City of Rose City, Michigan is governed by six elected City Council members and an elected mayor. The accompanying financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board (GASB) for determining the various governmental organizations to be included in the reporting entity. These criteria include significant operational financial relationships that determine which of the governmental organizations are a part of the City's reporting entity, and which organizations are legally separate, component units of the City. Based on the application criteria, the financial statements present the City as the primary government. The City does not contain any component units.

Joint Area Fire Board - The City is a participant in the joint venture known as the Rose City Area Fire Board, along with the townships of Rose, Cumming, and Klacking. The Rose City Area Fire Board provides fire protection services to the residents of its members.

In the event of the withdrawal of one member, the withdrawing member shall receive 50% of the withdrawing member's share of the Fire Board's assets (as appraised) less any liabilities. In the event of the withdrawal of two or more members, all property shall be disposed of in any manner upon which all parties can agree as provided in the Fireboard agreement.

The most recent available information from the Fire Board's audited financial statements as of December 31, 2006:

Total Assets	\$ 106,966	Total Revenues	\$ 104,124
Total Liabilities	3,101	Total Expenditures	70,025
Total Equity	103,865	Increase in fund balance	34,099

Payments to the Fire Board by the City of Rose City for the year ended June 30, 2008 were \$14,984. Financial information for the Fire Board can be obtained from the City Clerk at the city hall in Rose City.

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

Note 1 - Summary of Significant Accounting Policies (Continued)

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenue includes (1) charges to customers or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a certain function and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds, proprietary funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis for Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Government fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, expenditures related to compensated absences and severance pay are recorded only when payment is due.

Property taxes, state-shared revenue and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when the cash is received by the City. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, compensated absence expenditures are recorded only when payment is due.

The City reports the following major governmental funds:

General Fund - The General Fund is the City's primary operating fund. It accounts for all financial resources of the City, except those required to be accounted for in another fund.

Major Street Fund - The Major Street Fund is used to account for state grants and other revenues restricted for use maintaining and improving the Major Street highway system.

Local Street Fund - The Local Street Fund is used to account for state grants and other revenues restricted for use maintaining and improving the Major Street highway system.

Note 1 - Summary of Significant Accounting Policies (Continued)

The City reports the following major proprietary fund:

Sewer Fund - The Sewer Fund accounts for the activities of the sewage collection system.

Water Fund - The Water Fund accounts for the activities of the water system.

Additionally, the City reports the following funds:

Agency Funds - Agency Funds are used to account for assets held by the City in a trustee capacity or as an agent for individuals, organizations, or other governments. These funds are custodial in nature (assets equal liabilities) and do not involve the measurement of results of operations.

Private sector standards of accounting issued prior to December 1, 1989 are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the City's sewer function of the City. Eliminations of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenue include: (1) charges to customers for goods, services or privileges provided and (2) operating grants and contributions; and (3) capital grants and contributions, including, special assessments. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. The principal operating revenue of the proprietary fund relates to charges to customers for sales and services. The Sewer Fund also recognizes the portion of tap fees intended to recover current costs (e.g., labor and materials to hook up new customers) as operating revenue. The portion intended to recover the cost of the infrastructure is recognized as nonoperating revenue. Operating expenses for the proprietary fund includes the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenue and expenses.

Assets, Liabilities, and Net Assets or Equity

Bank Deposits and Investments - Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

Note 1 - Summary of Significant Accounting Policies (Continued)

Receivables and Payables - In general, outstanding balances between funds are reported as "due to/from other funds." Activity between fund that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "advances to/from other funds." Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances."

All trade and property tax receivables are shown net of an allowance for uncollectible amounts.

Property Taxes - Property taxes are levied on each December 1st on the taxable valuation of property as of the preceding December 31st. Taxes are considered delinquent on March 1st of the following year, at which time penalties and interest are assessed.

The City's 2007 ad valorem tax is levied and collectible on July 1, 2007, and is recognized as revenue in the year ended June 30, 2008, when the proceeds of the levy are budgeted and available for the financing of operations.

The 2007 taxable valuation of the City totaled \$13,868,590, on which ad valorem taxes levied consisted of 14.6348 mills for operating purposes, 1.0000 for fire protection purposes, and 3.0000 for City streets. The tax levies resulted in \$187,977 for operating purposes, \$12,844 for fire protection purposes and \$38,533 for City streets. The City's DDA Fund captured \$28,414 of taxes for DDA purposes. These amounts are recognized in the respective General and Special Revenue funds.

Inventories and Prepaid items - Inventories are valued at cost, on a first-in, first-out basis. Inventory of governmental funds are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both government wide and fund financial statements.

Capital Assets - Capital assets, which include land, buildings, equipment, and infrastructure assets (e.g., amounts paid to the Road Commission for the intangible right to use the roads), are reported in the governmental activities column in the government-wide financial statements. Capital assets are defined by the City as assets with an initial individual cost of more than \$250 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of the donation. Infrastructure assets acquired prior to implementation of GASB 34 are not included in the financial statements.

Buildings, equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

Infrastructure	20 years
Buildings and additions	50 years
Vehicles	5 years
Office furnishings	5-20 years
Other equipment	5-20 years

Note 1 - Summary of Significant Accounting Policies (Continued)

Compensated Absences - It is the City's policy to permit employees to accumulate earned but unused vacation pay benefits. All vacation pay is accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental funds as they come due for payment, generally when there are employee terminations as of year end. Employees do not receive a payoff of unused sick and personal business days.

Fund Equity - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriating or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Note 2 - Stewardship, Compliance and Accountability

Budgetary Information - The City is subject to the budgetary control requirements of the Uniform Budgeting Act (P.A. 621 of 1978, as amended). Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the General Fund and all Special Revenue Funds. All annual appropriations lapse at fiscal year end.

Prior to the beginning of the fiscal year, the proposed budget for each budgetary fund is submitted to the City Council for consideration. Public hearings are held to obtain taxpayer comments and the budgets are adopted at the activity level by a majority vote of the City Council.

The budget document presents information by fund and activity. The legal level of budgetary control adopted by the City Council is the activity level.

During the year, the budgets were amended in a legally permissible manner.

Excess of Expenditures Over Appropriations in Budgeted Funds - The City incurred expenditures in excess of budgeted amounts as follows:

<u>Fund and Function</u>	<u>Appropriation</u>	<u>Expenditure</u>	<u>Unfavorable Variance</u>
<u>General Fund:</u>			
Public safety	\$ 75,977	\$ 84,453	\$ 8,476
Capital Outlay	6,000	8,392	2,392
Transfer to Other Funds	28,250	30,618	2,368
<u>Local Street Fund:</u>			
Public works	50,680	53,632	2,952

Note 3 - Deposits and Investments

At June 30, 2008, the City of Rose City's deposits and investments were reported in the basic financial statements (including a General Fund petty cash fund of \$125) in the following categories:

	Governmental Activities	Enterprise Funds	Fiduciary Funds	City Total
Cash and cash equivalents	\$ 356,086	\$ 316,880	\$ 2	\$ 672,968
Investments	-	-	-	-
Total	<u>\$ 356,086</u>	<u>\$ 316,880</u>	<u>\$ 2</u>	<u>\$ 672,968</u>

Investment and deposit risk:

Interest rate risk

In accordance with its investment policy, the City will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by: investing operating funds primarily in shorter term securities and limiting the average maturity in accordance with the City's cash requirements.

Credit risk

State law limits investments in commercial paper and corporate bonds to a prime or better rating issued by nationally recognized statistical rating organizations (NRSRPs). The City has no investments for which ratings are required.

Custodial credit risk - deposits

In the case of deposits, there is the risk that in the event of a bank failure, the City's deposits may not be returned to it. State law does not require and the City does not have a policy for custodial credit risk. At June 30, 2008, \$239,873 of the City's bank balances of \$676,053 was exposed to custodial credit risk because it was uninsured.

The City Council is authorized to designate depositories for City funds, and to determine that the funds are invested in accordance with State of Michigan statutory authority.

The City is authorized by statute and City policy to invest surplus funds in the following:

- a. Bonds, securities, and other obligations and repurchase agreements of the United States, or an agency or instrumentality of the United States with remaining maturities of two years or less.
- b. Certificates of deposit of a bank which is a member of the Federal Deposit Insurance Corporation.
- c. Commercial paper rated at the time of purchase within the two highest classifications by not less than two standard rating services.

The City's deposits are in accordance with statutory authority.

City of Rose City
Notes to Financial Statements
June 30, 2008

Note 4 - Receivables

The following is the detail of the receivables of the governmental activities due from other governmental units at June 30, 2008:

	General Fund	Major Street Fund	Local Street Fund	Total
State of Michigan	\$ 10,179	\$ 8,787	\$ 2,817	\$ 21,783
Less: Allowance for uncollectibles	-	-	-	-
Total receivables	<u>\$ 10,179</u>	<u>\$ 8,787</u>	<u>\$ 2,817</u>	<u>\$ 21,783</u>

Governmental funds report deferred revenue in connection with receivables for revenue that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, the various components of deferred revenue are as follows:

	Unavailable	Unearned
General Fund - rent paid in advance	\$ -	\$ 2,860
Water Fund - Grants	-	4,572
Totals	<u>\$ 0</u>	<u>\$ 7,432</u>
Total deferred revenue		<u>\$ 7,432</u>

Note 5 - Capital Assets

Capital asset activity of the City's governmental and business-type activities were as follows:

Governmental Activities

<u>Assets</u>	Balance July 1, 2007	Additions	Deletions	Balance June 30, 2008
Capital assets not being depreciated - Land	\$ 59,543	\$ -	\$ -	\$ 59,543
Capital assets being depreciated:				
Infrastructure	407,394	93,628	-	501,022
Land improvements	110,794	300	-	111,094
Buildings	176,577	2,379	-	178,956
Furniture and equipment	<u>319,387</u>	<u>14,835</u>	<u>1,961</u>	<u>332,261</u>
Subtotal	<u>1,073,695</u>	<u>111,142</u>	<u>1,961</u>	<u>1,182,876</u>
<u>Accumulated Depreciation</u>				
Infrastructure	46,820	21,672	-	68,492
Land improvements	50,407	5,047	-	55,454
Buildings	81,469	4,205	-	85,674
Furniture and equipment	<u>144,008</u>	<u>22,415</u>	<u>1,961</u>	<u>164,462</u>
Subtotal	<u>322,704</u>	<u>53,339</u>	<u>1,961</u>	<u>374,082</u>
Net capital assets being depreciated	<u>750,991</u>	<u>57,803</u>	<u>-</u>	<u>808,794</u>
Net capital assets	<u>\$ 750,991</u>	<u>\$ 57,803</u>	<u>\$ 0</u>	<u>\$ 808,794</u>

Note 5 - Capital Assets (Continued)

Business-type Activities

<u>Assets</u>	Balance July 1, 2007	Additions	Deletions	Balance June 30, 2008
Capital assets being depreciated				
Sewer system	\$ 2,073,060	\$ -	\$ -	\$ 2,073,060
Sewer system-buildings	37,157	-	-	37,157
Sewer system-equipment	45,737	-	-	45,737
Water system	576,048	196,046	-	772,094
Subtotal	<u>2,732,002</u>	<u>196,046</u>	<u>-</u>	<u>2,928,048</u>
<u>Accumulated Depreciation</u>				
Sewer system	892,240	41,784	-	934,024
Buildings	23,034	1,486	-	24,520
Equipment	24,294	2,342	-	26,636
Water system	162,144	7,179	-	169,323
Subtotal	<u>1,101,712</u>	<u>52,791</u>	<u>-</u>	<u>1,154,503</u>
Net capital assets being depreciated	<u>1,630,290</u>	<u>143,255</u>	<u>-</u>	<u>1,773,545</u>
Net capital assets	\$ <u><u>2,381,281</u></u>	\$ <u><u>201,058</u></u>	\$ <u><u>0</u></u>	\$ <u><u>2,582,339</u></u>

Depreciation expense was charged to programs of the primary government as follows:

Governmental activities:

General government	\$ 8,627
Public safety	5,562
Public works	32,175
Recreation	6,975
Total governmental activities	\$ <u><u>53,339</u></u>

Business-type activities - Sewer

\$ 45,612

Business-type activities - Water

\$ 7,179

Note 6 - Receivables, Payables and Transfers

The composition of interfund balances is as follows:

<u>Receivable Fund</u>		<u>Payable Fund</u>		<u>Amount</u>
General Fund	\$ 2,171	General Fund	\$	2,968
Major Street Fund	-	Major Street Fund		1,980
Local Street Fund	293	Local Street Fund		-
All Ages Recreation Fund	-	All Ages Recreation Fund		189
Sewer Fund	2,675	Sewer Fund		792
Water Fund	792	Water Fund		-
Fiduciary Funds		Fiduciary Funds		2
Total	\$ <u>5,931</u>	Total	\$	<u>5,931</u>
<u>Transfer In</u>		<u>Transfer Out</u>		
Major Street Fund	\$ 23,900	General Fund	\$	30,618
Water Fund	27,500	Local Street Fund		20,782
	\$ <u>51,400</u>		\$	<u>51,400</u>

Operating transfers were made from the General Fund as subsidies of the above funds.

Note 7 - Risk Management

The City is exposed to various risks of loss related to theft of, damage to, and destruction of assets: errors and omissions; injuries to employees; and natural disasters. These risks are covered by insurance purchased from independent insurance companies. Settled claims from these risks have not exceeded insurance coverage for the last three years.

Note 8 - Defined Benefit Pension Plan (Municipal Employees' Retirement System of Michigan)

Plan Description

The City participates in the Municipal Employees' Retirement System of Michigan (MERS), an agent multiple-employer defined benefit pension plan administered by the MERS Retirement Board that covers substantially all full-time employees. Act No. 427 of the Public Acts of 1984, as amended, establishes and amends the benefit provisions of the participants of MERS. The system provides retirement, disability and death benefits to plan members and their beneficiaries. MERS issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the Municipal Employees Retirement System of Michigan, 1134 Municipal Way, Lansing, Michigan, 48917 or by calling (800) 767-6377.

Funding Policy - The City is required to contribute at an actuarially determined rate; the current rate is 5% of annual covered payroll. City employees are required to contribute 3-5% of their annual covered payroll. The contribution requirements of plan members are established and may be amended by the City, depending on the MERS contribution program adopted by the City. The City's current year covered payroll and its total current year payroll for all employees amounted to \$102,785 and \$158,056 respectively. Required employee contributions for the fiscal year were \$5,138.

Note 8 - Defined Benefit Pension Plan (Municipal Employees' Retirement System of Michigan)
(Continued)

Annual Pension Costs - For the year ended June 30, 2008, the City's annual pension cost of \$5,138 for the plan was equal to the required and actual contribution. The annual required contribution was determined as part of an actuarial valuation as of December 31, 2007, using the entry age normal actuarial funding method. Significant actuarial assumptions used in determining the pension benefit obligation include (a) a rate of return on the investment of present and future assets of 8%, (b) projected salary increases of 4.5% per year compounded annually, attributable to inflation, (c) additional projected salary increases of 0%-8.5% per year, depending on age, attributable to seniority/merit, and (d) the assumption that benefits will increase 2.5% per year (annually) after retirement, for persons under Benefit E-1 of E-2. The actuarial value of MERS assets was determined on the basis of a valuation method that assumes the fund earns the expected rate of return, and includes an adjustment to reflect market value. Unfunded actuarial accrued liabilities, if any, are amortized as a level percent of payroll over a period of 30 years. The City of Rose City does not have an unfunded liability.

Three year trend information as December 31, 2007 follows:

	2005	2006	2007
Annual Pension Cost	\$ 7,621	\$ 5,977	\$ 4,890
Percent of APC Contributed	100%	100%	100%
Actuarial Value of Assets	493,361	519,111	548,005
Actuarial Accrued liabilities	404,102	418,073	447,985
Overfunded Actuarial Liability	89,259	101,038	100,020
Funded Ratio	122%	124%	122%
Covered Payroll	69,680	89,750	102,785
UAAL as a Percentage of Covered Payroll	0%	0%	0%

Note 9 - Commitment - Cumming Township

On November 6, 1997, the City Council executed an agreement with Cumming Township, whereby the Township is authorized to connect its wastewater collection system to the City's wastewater treatment system. The Township will be allowed to utilize up to 13% of the wastewater treatment system's capacity. The Township will pay all costs of connection.

Additionally, the Township agrees to pay the City for each user of the Township Collection System at rates enumerated in the City's sewer rate ordinance.

The City agrees to operate and maintain the Township's facility. The Township shall reimburse the City for the effort at its prevailing hourly rates for labor and equipment.

Required Supplemental Information

City of Rose City
Budgetary Comparison Schedule - General Fund
Year Ended June 30, 2008

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance With Final Budget Favorable (Unfavorable)
	Original	Final		
Fund Balance - Beginning of year	\$ 159,166	\$ 159,166	\$ 213,467	\$ 54,301
Resources (Inflows)				
Taxes and fees	210,468	210,605	210,753	148
Licenses and permits	1,600	1,468	2,176	708
State grants	89,186	86,533	88,630	2,097
Charges for services	900	1,068	2,898	1,830
Fines and forfeits	300	1,928	2,000	72
Interest and rentals	38,180	40,428	41,093	665
Reimbursements	74,400	74,898	73,574	(1,324)
Other	1,800	6,779	6,854	75
Amounts available for appropriation	<u>576,000</u>	<u>582,873</u>	<u>641,445</u>	<u>58,572</u>
Charges to Appropriations (Outflows)				
General government	106,670	105,375	101,475	3,900
Public safety	80,057	75,977	84,453	(8,476)
Public works	160,875	168,697	168,309	388
Recreation and culture	7,542	4,842	4,806	36
Community & economic development	11,950	11,105	10,757	348
Other	-	-	-	-
Capital outlay	6,500	6,000	8,392	(2,392)
Transfers to other funds	28,250	28,250	30,618	(2,368)
Total charges to appropriations	<u>401,844</u>	<u>400,246</u>	<u>408,810</u>	<u>(8,564)</u>
Fund Balance - end of year	<u>\$ 174,156</u>	<u>\$ 182,627</u>	<u>\$ 232,635</u>	<u>\$ 50,008</u>

City of Rose City
 Budgetary Comparison Schedule - Major Street Fund
 Year Ended June 30, 2008

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget Favorable (Unfavorable)
	Original	Final		
Fund Balance - Beginning of year	\$ 38,602	\$ 38,602	\$ 26,507	\$ (12,095)
Resources (Inflows)				
Taxes and fees	-	-	-	-
State grants	50,000	50,000	55,027	5,027
Charges for services	-	-	-	-
Interest earnings	700	335	338	3
Transfers from other funds	23,900	23,900	23,900	-
Amounts available for appropriation	<u>113,202</u>	<u>112,837</u>	<u>105,772</u>	<u>(7,065)</u>
Charges to Appropriations (Outflows)				
General government	-	-	-	-
Public safety	-	-	-	-
Public works	78,419	81,361	80,464	897
Recreation and culture	-	-	-	-
Capital outlay	-	-	-	-
Debt service	-	-	-	-
Total charges to appropriations	<u>78,419</u>	<u>81,361</u>	<u>80,464</u>	<u>897</u>
Fund Balance - end of year	<u>\$ 34,783</u>	<u>\$ 31,476</u>	<u>\$ 25,308</u>	<u>\$ (6,168)</u>

City of Rose City
 Budgetary Comparison Schedule - Local Street Fund
 Year Ended June 30, 2008

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget Favorable (Unfavorable)
	Original	Final		
Fund Balance - Beginning of year	\$ 88,693	\$ 88,693	\$ 53,150	\$ (35,543)
Resources (Inflows)				
Taxes and fees	38,849	38,499	38,533	34
State grants	19,500	19,118	17,192	(1,926)
Interest earnings	2,000	1,300	1,279	(21)
Transfer from other funds	-	-	3,118	3,118
Amounts available for appropriation	<u>149,042</u>	<u>147,610</u>	<u>113,272</u>	<u>(34,338)</u>
Charges to Appropriations (Outflows)				
General government	-	-	-	-
Public safety	-	-	-	-
Public works	43,680	50,680	53,632	(2,952)
Recreation and culture	-	-	-	-
Capital outlay	-	-	-	-
Debt service	-	-	-	-
Transfers to other funds	-	23,900	23,900	-
Total charges to appropriations	<u>43,680</u>	<u>74,580</u>	<u>77,532</u>	<u>(2,952)</u>
Fund Balance - end of year	<u>\$ 105,362</u>	<u>\$ 73,030</u>	<u>\$ 35,740</u>	<u>\$ (37,290)</u>

Other Supplemental Information

City of Rose City
Nonmajor Governmental Funds
Combining Balance Sheet
June 30, 2008

	Special Revenue Funds			
	<u>Parks & Recreation</u>	<u>DDA</u>	<u>All Ages Recreation</u>	<u>Total Special Revenue</u>
Assets				
Cash and investments	\$ 5,059	\$ 58,394	\$ 5,894	\$ 69,347
Due from other funds	-	-	-	-
Due from other governments	-	-	-	-
Total assets	<u>\$ 5,059</u>	<u>\$ 58,394</u>	<u>\$ 5,894</u>	<u>\$ 69,347</u>
Liabilities and Fund Balances				
Liabilities:				
Accounts payable	\$ 4,035	\$ 2,135	\$ 82	\$ 6,252
Accrued and other liabilities	-	-	-	-
Due to other funds	-	-	189	189
Total liabilities	<u>4,035</u>	<u>2,135</u>	<u>271</u>	<u>6,441</u>
Fund Balances:				
Unreserved	<u>1,024</u>	<u>56,259</u>	<u>5,623</u>	<u>62,906</u>
Total fund balance	<u>1,024</u>	<u>56,259</u>	<u>5,623</u>	<u>62,906</u>
Total liabilities and fund balances	<u>\$ 5,059</u>	<u>\$ 58,394</u>	<u>\$ 5,894</u>	<u>\$ 69,347</u>

City of Rose City
Nonmajor Governmental Funds
Combining Statement of Revenues, Expenditures,
and Changes in Fund Balances
Year Ended June 30, 2008

	Special Revenue Funds			Total Special Revenue
	Parks & Recreation	DDA	All Ages Recreation	
Revenue				
Taxes and fees	\$ -	\$ 28,414	\$ -	\$ 28,414
Charges for services	-	-	-	-
Interest and rentals	81	1,183	30	1,294
Other	14,451	17,424	6,385	38,260
Total revenue	14,532	47,021	6,415	67,968
Expenditures				
General government	-	26,632	-	26,632
Culture and recreation	5,498	-	4,610	10,108
Capital outlay	9,122	-	-	9,122
Debt service:				
Principal retirement	-	-	-	-
Interest and fiscal charges	-	-	-	-
Total expenditures	14,620	26,632	4,610	45,862
Excess of Revenue Over (Under) Expenditures	(88)	20,389	1,805	22,106
Other Financing Sources (Uses)				
Transfers in (out)	-	-	-	-
Total other financing sources (uses)	-	-	-	-
Net Change in Fund Balances	(88)	20,389	1,805	22,106
Fund Balances - Beginning of year	1,112	35,870	3,818	40,800
Fund Balances - End of year	\$ 1,024	\$ 56,259	\$ 5,623	\$ 62,906



ROBERTSON & CARPENTER CPAs, P.C.

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Rodney C. Robertson, CPA

Robert J. Carpenter, CPA

December 18, 2008

City Council
City of Rose City
Ogemaw County, Michigan

In planning and performing our audit of the financial statements of the City of Rose City as of and for the year ended June 30, 2008, in accordance with auditing standards generally accepted in the United States of America, we considered City of Rose City's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Rose City's internal control. Accordingly, we do not express an opinion on the effectiveness of the governmental unit's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. In addition, because of inherent limitations in internal control, including the possibility of management override of controls, misstatements due to error or fraud may occur and not be detected by such controls. However, as discussed below, we identified a certain deficiency in internal control that we consider to be a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the City's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City's financial statements that is more than inconsequential will not be prevented or detected by the City's internal control. We consider the following deficiency to be a significant deficiency in internal control.

Lack of adequate controls to produce full-disclosure GAAP basis financial statements.

Requirement: All Michigan governmental units are required to prepare financial statements in accordance with generally accepted accounting principles (GAAP). This is a responsibility of the City's management. The preparation of financial statements in accordance with GAAP requires internal controls over both (1) recording, processing, and summarizing accounting data, and (2) reporting government-wide and fund financial statements, including the related footnotes.

Condition: The City, as is common with smaller and medium-sized entities, has historically relied on its independent external auditors to assist in the preparation of the government-wide financial statements and footnotes as part of its external financial reporting process. Accordingly, the City's ability to prepare financial statements in accordance with GAAP is based, in part, on its reliance on its external auditors, who cannot by definition be considered part of the government's internal controls.

Cause: This condition was caused by the City's decision that it is more cost effective to outsource the preparation of its annual financial statements to the auditors than to incur the time and expense of obtaining the necessary training and expertise required for the City to perform this task internally.

Effect: The result of this condition is that the City lacks internal controls over the preparation of financial statements in accordance with GAAP, and instead relies, in part, on its external auditors for assistance with this task.

View of responsible officials: The City has evaluated the cost vs. benefit of establishing internal controls over the preparation of financial statements in accordance with GAAP, and determined that it is in the best interests of the City to outsource this task to its external auditors, and to carefully review the draft financial statements and notes prior to approving them and accepting responsibility for their content and presentation.

This communication is intended solely for the information and use of management, the City Council, and others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.

Robertson & Carpenter CPAs, P.C.
Certified Public Accountants
Rose City, Michigan